

SUMMARY

The Asia-Pacific region is the world's largest and fastest growing market for aircraft, aerospace technology and services, airport facilities and passenger and cargo air movements.

Australia is located in the Asia Pacific region, and has one of the world's most profitable airlines, Qantas. Its economy has been extraordinarily resistant to global fluctuations, and has been growing consistently, bolstered by demand for its raw materials and agricultural output. It is politically and economically stable, enjoys a strategic geographic location, possesses an enormous natural resource base, a highly developed and skilled human resource base, and transparent and modern legal and financial systems. Its well-developed business infrastructure facilities support commerce, and although there is minimal manufacturing in the sector has a well-developed aerospace industry infrastructure.

As well as being one of the leading nations in the region, the Australian economy is larger than the economies of all of the other countries in South East Asia combined. It is itself one of the key markets for aviation, aerospace and defense in the Asia Pacific region.

The sector comprises a few large aerospace companies and several hundred small to medium enterprises across a diverse range of specialist and technical businesses that form part of the critical supply chain to the prime companies and assembly operations.

Australia's aerospace industry employs around 11,000 people with a turnover of \$1.7billion. Imports average around \$3 billion per year, depending on the phasing of large aircraft purchases. Imports from the U.S. over the past three years have averaged \$1.8 billion, however the trend is alarmingly downward. The decision by Qantas to include Airbus aircraft in its fleet, and the Australian Department of Defense transition from American to European helicopters is eroding the traditional dominance of U.S. manufacturers in the commercial and defense segments. Spares and parts may not be so adversely affected as the U.S. is still regarded as the best source for these.

MARKET OVERVIEW

Australians own more aircraft per capita than any country outside North America, with over 12,000 registered aircraft, utilizing over 260 licensed airports. Although there is very little aircraft manufacturing, the Australian market is busily engaged in the supply of aircraft components, aircraft modification, repair and maintenance, system design and development, aviation training and air traffic management products. The industry is characterized by a mix of subsidiaries of the major global aerospace companies and around 250 small to medium local enterprises. Imports comprise around three-quarters of the total market on a value basis.

The U.S. still enjoys a strong position in sales of aircraft, parts, avionics, and ground support equipment.

Owing to the proliferation of U.S.-manufactured aircraft, there is a strong aftermarket for U.S.-produced equipment in all areas of aviation and aerospace in Australia. U.S. suppliers have an unmatched reputation for quality and service across the many agent/distributor-manufacturer relationships that characterize market supply in Australia.

The market is comprised of three main areas – defense, commercial aviation, and general aviation.

Defense

The Australian defense budget is currently increasing steadily at 3% overall, and stands at close to \$14 billion. A recent expansion in operational activities, encompassing security, reconstruction and peacekeeping activities has stretched the budget, with some slippage in the timing of capital equipment acquisitions.

The Australian Department Defense is a major influence on the industry, being the largest single customer and accounting for one third of turnover. Through its large purchases, the Department stimulates research, investment, and fosters the growth of niche suppliers and repair and maintenance establishments. The Department, through government direction, is able to stimulate industry investment, research and development, and facilitate Australian SME entry into global supply chains. The most fruitful example of this is the decision by Australia to participate in the System Development and Demonstration Phase of the Joint Strike Fighter project. To date, it has opened up opportunities for nineteen Australian enterprises to supply various components for the new fighter.

The U.S. DOD is a major supplier to the Australian military through the Foreign Military Sales Program, and most major U.S. aerospace defense contractors are either represented or have subsidiary operations in Australia.

General aviation

Of the 12,000 aircraft on the Australian Aircraft Register, the majority are small aircraft, the total number of which is increasing by between 1.5% and 2.5% per year. Cessna and Piper lead the number with around 45% of total registrations.

The Australian avionics industry is for the most part limited to the supply and installation of components rather than the design and development of high technology products.

The basic measure of general aviation is reflected in flying hours, as recorded on an annual basis by the Australian Bureau of Transport and Regional Economics. The effects of drought on aerial agriculture flying, for example influence the figures and the demand for spares and maintenance. As well as agricultural work, major areas of general aviation activity in Australia are private and training activity, aerial work, charter operations, business flying, sport aviation and a growing interest in kit aircraft and ultralight activity.

Commercial aviation

The commercial aviation segment accounts for around half of the Australian market. Qantas/Jetstar dominates commercial aviation activity in Australia, with Virgin Blue claiming 30% of the domestic travel market in the face of strong competition. Virgin Blue operates B737 aircraft, maintaining them at a facility in Brisbane, Queensland. The Qantas fleet is comprised of Boeing, and, more recently, Airbus aircraft. It is expecting deliveries of A380 models beginning in 2007. It has extensive repair and maintenance facilities and ground support facilities. It buys new ground support equipment from several preferred suppliers that are invited to bid for tenders. Once it has identified who is available to deliver what, it asks the manufacturers to put in an offer of price. The recent Qantas decision to purchase the 787 Dreamliner will again make Boeing the manufacturer of choice.

The commercial airline market tends to source equipment direct from manufacturers.

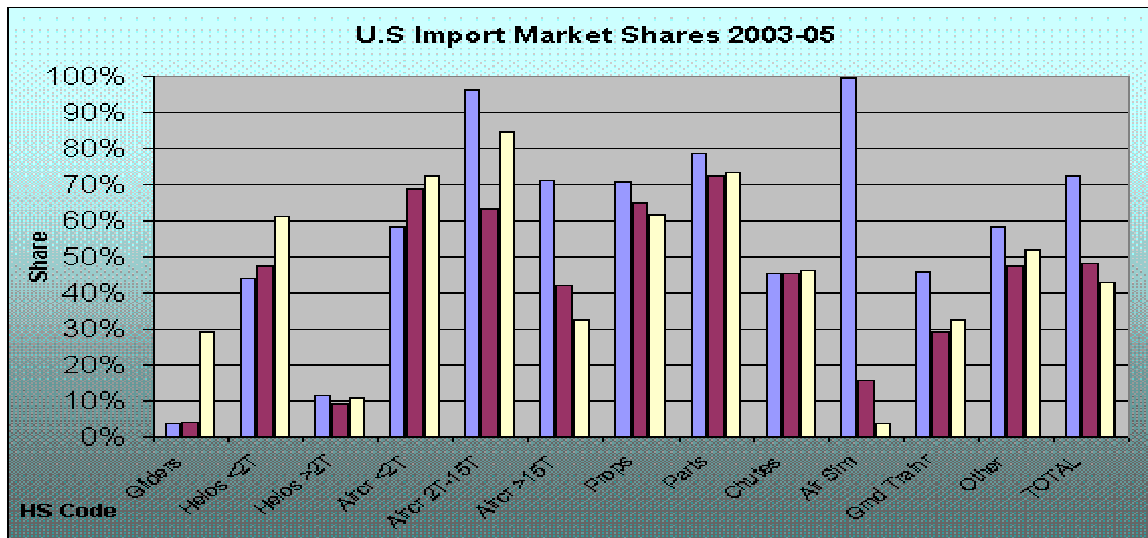
Regional airlines operating in Australia provide regular public air transport services, and serve 9-10% of the market. There is a range of air charter service operators in Australia flying training schools. Aerial agriculture uses special purpose aircraft, support vehicles and equipment, and aircraft maintenance facilities. Search and rescue operations, fire fighting and police forces and medical services use a variety of rotary and fixed-wing aircraft.

Bell and Eurocopter dominate the market for turbine helicopters, and Robinson the market for piston-driven rotary aircraft. The Robinson R22 Beta is by far the most popular, with around 270 aircraft in use in Australia.

MARKET TRENDS

Recent USCS research has identified that Australian distributors are interested in traditional areas such as avionics, ground support equipment, and parts and spares that offer quality at a competitive price. A common theme, understandably, was the availability of products, equipment or technology that can improve fuel efficiency. Aircraft security was an issue, with one large supplier to the market looking for special mission equipment, and another looking for interior products for the business market. There is a growing, more widespread interest, in PMA parts. PMA parts are Parts Manufacturer Approval granted by the FAA. It is a combined design and production approval for modification and replacement parts, enabling manufacturers to produce and sell parts for installation on type certificated products. One distributor we contacted remarked that the firm would be specializing in the supply of PMA parts to the Australian general aviation market. The acceptance of PMA parts, however, may be limited in the short term at least, as the Australian military won't even consider this kind of source, no matter how good the manufacturer's reputation may be. It seems OEMs rule in the area of mil-spec.

Australian Imports - Total World vs United States (US\$ million)					
Source of data: World Trade Atlas/Australian Bureau of Statistics					
From World		January - December			% Change
HS	AIRCRAFT, SPACECRAFT	2003	2004	2005	05/04
880110	Gliders, Hang Glider	\$1.01	\$0.46	\$1.04	125.82
880211	Helicopters=<2000kg	\$48.78	\$42.40	\$38.53	-9.14
880212	Helicopters>2000 Kg	\$26.31	\$52.17	\$62.52	19.84
880220	Airplane=<2000 Kg	\$13.47	\$25.22	\$29.70	17.75
880230	Airplane>2000=<15000k	\$132.70	\$106.97	\$80.00	-25.21
880240	Airplane >15,000 Kg	\$2,419.89	\$1,954.24	\$1,878.17	-3.89
880310	Propeller Rotor, Other	\$24.77	\$46.97	\$29.09	-38.07
880330	Airplane, Helicopter, Parts	\$621.92	\$531.16	\$551.01	3.74
880400	Parachutes	\$2.65	\$3.91	\$3.44	-11.96
880521	Air Combat Simulators And Parts Thereof	\$24.95	\$3.52	\$18.84	435.02
880529	Ground Flying Trainers And Parts Thereof, Nesoi	\$28.12	\$51.26	\$7.81	-84.76
88	Other	\$44.15	\$45.01	\$44.07	-2.1
	TOTAL	\$3,388.73	\$2,863.29	\$2,744.22	-4.16
From United States					
880110	Gliders, Hang Glider	\$0.04	\$0.02	\$0.30	1483.01
880211	Helicopters=<2000kg	\$21.60	\$20.07	\$23.53	17.24
880212	Helicopters>2000 Kg	\$3.10	\$4.89	\$6.84	39.81
880220	Airplane=<2000 Kg	\$7.84	\$17.37	\$21.48	23.65
880230	Airplane>2000=<15000k	\$127.50	\$67.63	\$67.68	0.08
880240	Airplane >15,000 Kg	\$1,720.46	\$820.58	\$610.59	-25.59
880310	Propeller Rotor, Other	\$17.58	\$30.52	\$17.97	-41.11
880330	Airplane, Helicopter, Parts	\$490.92	\$385.30	\$404.04	4.86
880400	Parachutes	\$1.20	\$1.77	\$1.59	-10.37
880521	Air Combat Simulators And Parts Thereof	\$24.86	\$0.55	\$0.74	33.76
880529	Ground Flying Trainers And Parts Thereof, Nesoi	\$12.93	\$15.05	\$2.54	-83.09
88	Other	\$25.68	\$21.30	\$22.95	7.75
	TOTAL	\$2,453.71	\$1,385.05	\$1,180.25	-14.83
U.S. Import Market Shares					
		2003	2004	2005	
880110	Gliders	3.6%	4.2%	29.2%	
880211	Helos <2T	44.3%	47.3%	61.1%	
880212	Helos >2T	11.8%	9.4%	10.9%	
880220	Aircr <2T	58.3%	68.9%	72.3%	
880230	Aircr 2T-15T	96.1%	63.2%	84.6%	
880240	Aircr >15T	71.1%	42.0%	32.5%	
880310	Props	71.0%	65.0%	61.8%	
880330	Parts	78.9%	72.5%	73.3%	
880400	Chutes	45.2%	45.3%	46.1%	
880521	Air Sim	99.7%	15.7%	3.9%	
880529	Grnd Trainr	46.0%	29.4%	32.6%	
88	Other	58.2%	47.3%	52.1%	
	TOTAL	72.4%	48.4%	43.0%	



The industry faces the longer-term impact of the aging general aviation fleet. For example, according to the Civil Aircraft Safety Authority (CASA), 55% per cent of Australian aircraft are single engine, fixed wing piston aircraft with a maximum take-off weight of no more than 5700 kilograms. Of these, over 84% were manufactured in, or before, 1980.

END USERS

The Department of Defense, as outlined above, is a major player in Australia's aerospace industry. Qantas and Virgin Blue are the mainstay of demand in the commercial sector. General aviation is of course more diverse. Users in order of the number of flying hours are:

- Charter operators
- Air training schools
- Private and business users
- Other aerial work – police, fire, surveillance, exploration, etc.
- Agricultural – crop spraying, mustering.

MARKET ACCESS

Access to the Australian market is limited only by competition, which in the aviation sector is minimal, as the market is well segmented among the distributors, and increasingly dominated by major players. The acceptance by CASA of FAA certification and standards eases the way to U.S. suppliers. The Australia United States Free Trade Agreement enacted on January 1, 2005 eliminated any residual 5% tariffs on aviation products.

Both imported and locally manufactured products are subject to a Goods and Services Tax (GST). The GST is a broad-based tax of ten percent on the supply of most goods and services consumed in Australia. It is akin to the value-added tax systems in Canada and Europe.

The U.S. has traditionally accounted for the majority of Australian imports of aircraft and parts. Successful recent incursions into this traditional U.S. stronghold have reduced the overall share, with large sales by BAE, EADS and Airbus. General Aviation is still the domain of U.S. suppliers, where quality, experience and after sales service have created a solid market base.

MARKET ENTRY

Success in the Australian market requires establishing a local sales presence, either through a local agent or distributor, or if business warrants it, a local subsidiary. New entrants are welcome if they can display a price or technology advantage over the existing supply. With the predominance of U.S. manufactured aircraft, there is a ready supply of spares and components at competitive prices. Maintenance, repair and modification facilities are widely available, with a high degree of local engineering skills.

In general, local firms usually enjoy distributorships for a range of spare parts from different manufacturers, and have the required infrastructure necessary for servicing aircraft. They like to place orders directly with manufacturers. There is not much major marketing in Australia, as most of the U.S. companies are well recognized and experience high receptivity by end-users. Potential suppliers considering the establishment of a distribution network in Australia are recommended to approach a major distributor initially.

Most of the criteria American firms use to select agents or distributors can be transferred to Australia, with expectations adjusted to the scale of the market. Performing due diligence is just as important as in the United States, and numerous resources are available to assist in that work, including the U.S. Commercial Service's International Company Profile (see below).

The standard forms of trade finance are all prevalent and widely used in Australia. In the private sector, bank and institutional financing is available. Historically, however, the banking sector has not been a major source of capital for small startup companies investing in the development of new technology.

The method, timing and arrangements for payment are a matter for negotiation between the U.S. exporter and Australian customer. The agreement reached will depend on the relative bargaining strengths of the two parties, the creditworthiness of the buyers and the financial resources of the seller. Generally, however, payment terms of between 30-60 days are considered the norm for small-to-medium consignments and up to 90 days for large volume purchases. The method of payment is usually by letter of credit or sight draft.

In 2003 the Australian Government initiated the *Aerospace Industry Action Agenda* which set a target of increasing Australia's aerospace exports fivefold by 2012. The agenda made a series of recommendations (16) to help achieve this goal and to focus Australia's aerospace capabilities into an aggressive and efficient exporting industry.

All participants in the maintenance segment of civil aircraft need to be accredited on standards by Airservices Australia and CASA.

SERVICES OFFERED BY THE U.S. COMMERCIAL SERVICE

The U.S. Commercial Service can assist American companies in the Australian market with the following services:

- A. Customized Market Research (CMR): is recommended as the entry-level step to determine prospects for a company's products or services, and as a tool to identify market opportunities and representation interest. Based on the finding of a CMR, a proposed customized market strategy is then prepared which could include either our International Partner Search or Gold Key Matching service.
- B. International Partner Search (IPS): involves a search to identify up to five qualified Australian agents, distributors, or joint venture partners who have examined a U.S. company's materials and have expressed an interest in the company's products or services.
- C. Gold Key Matching Service (GKS): schedules meetings with local companies for visiting U.S. firms.
- D. Platinum Key Service (PKS): is solution-oriented and designed to support U.S. companies who require ongoing assistance. The fee is dependent on the scope of the market development assistance required.

E. International Company Profile (ICP): designed to assist U.S. companies evaluate potential business partners by providing a detailed report on Australian companies. Through the service, clients can request answers to detailed questions about Australian companies on a variety of issues and receive advice about the relative strength of the firm in its market and its reliability, among other things.

For more information on any of these services please contact your nearest U.S. Department of Commerce Export Assistance Center and ask for the Aerospace & Defense Team, or visit our website at www.BuyUSA.gov/Australia

KEY CONTACTS

Airservices Australia

Airservices Australia provides air traffic services and telecommunications facilities for civil aviation in Australia. Airservices centres in Brisbane and Melbourne provide air traffic services to the entire Australian flight information region. In addition, local air traffic control services are provided at twenty-six other locations in Australia. Airservices Australia provides Aerodrome Rescue and Fire Fighting Services at civil aerodromes where such a service is required.

www.airservices.gov.au/

Civil Aviation Safety Authority

CASA administers the safety regulation of civil air operations, and is involved in projects such as the introduction of new generation Global Navigation Satellite System receiver standards, and implementation of a new high-technology satellite-based aeronautical surveillance system called Automatic Dependent Surveillance Broadcast. This is planned to provide 'radar like' coverage over continental Australia.

www.casa.gov.au

Department of Defense

Defense acquisition – the Defense Materiel Organization

www.defence.gov.au/dmo

Directory of Defense Suppliers

Maintained by Yaffa Publications. Its *Australian Defence Magazine* is the leading defence business magazine in Australia. It provides coverage and analysis of major projects and equipment acquisitions, as well as commentary on policy and future directions for the Australian Defense Force, the New Zealand Defence Forces, and regional defense issues.

www.yaffa.com.au/defencesuppliers

Aircraft Owners and Pilots Association

The Aircraft Owners and Pilots Association is Australia's largest independent non-profit recreational aviation organisation. AOPA Australia is a member of the International Council of Aircraft Owners and Pilots Associations. It has a membership of 4,000 and claims to be the voice of recreational flying and general aviation in Australia.

<http://www.aopa.com.au/>

Regional Aviation Association of Australia

RAAA promotes the regional aviation industry and its benefits to Australian transport, tourism and economy. The RAAA is formally represented on a number of industry bodies, such as the Airports Co-ordination Committee; the Australian Air Traffic Management Strategic Planning Group; the Aviation Industry Consultative Group on Aviation Security; the Aviation Law Association; CASA Standards Consultative Committee, and the International Federation of Regional Airlines Association.

<http://www.raaa.com.au>

Australian Business Aircraft Association

Promotes the aviation interests of persons, firms and corporations in Australia operating aircraft in connection with their businesses

<http://www.abaa.com.au/>

UPCOMING TRADE SHOWS

The major trade event in Australia takes place every two years at Avalon Airport near Melbourne, Victoria, organized by the Aerospace, Maritime and Defense Foundation. It is a significant regional event, a runner-up in size after the three major shows in the world, Farnborough, Paris and Singapore.

Australian International Air Show and Defense and Aerospace Expo
Avalon Airport, Melbourne
March 15-20, 2005

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